

**REPORT OF THE AUDIT OF THE
CLINTON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Lyle Huff, Clinton County Judge/Executive

Honorable Donnie McWhorter, Former Clinton County Judge/Executive

Members of the Clinton County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Clinton County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements.

We engaged Ross & Company, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Clinton County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CLINTON COUNTY FISCAL COURT

June 30, 2006

Ross & Company, PLLC has completed the audit of the Clinton County Fiscal Court for fiscal year ended June 30, 2006. We have issued an unqualified opinion on the governmental activities, each major fund, and the aggregate remaining fund information of Clinton County, Kentucky. The Jailer did not maintain accurate and complete records for the receipts of the Jail Canteen Fund, the county's only enterprise fund. As a result, we were unable to determine actual receipts for the business-type activities of the Jail Canteen Fund. Therefore, we have issued a qualified opinion on the business-type activities and the Jail Canteen Fund of Clinton County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$4,145,491 as of June 30, 2006. The fiscal court had unrestricted net assets of \$1,092,395 in its governmental activities as of June 30, 2006, with total net assets of \$4,114,651. Total net cash and cash equivalents for the business-type activities were \$30,840 with total net assets of \$30,840. In the fiduciary fund, total cash and cash equivalents held in custody for others were \$21,543, with net assets of \$0.

Report Comments:

- 2006-01 The Fiscal Court Should Improve Their Internal Control Procedures
- 2006-02 The Fiscal Court Should Strengthen Internal Control Procedures Over Ambulance Billings And Collections
- 2006-03 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2006-04 The Fiscal Court Should Strengthen Controls Over Employee Timesheets
- 2006-05 The Fiscal Court Should Have Better Control Over Voided Checks
- 2006-06 The Fiscal Court Should Improve Procedures Over Expenditures And Cash Disbursements
- 2006-07 The Fiscal Court Should Properly Account For Encumbrances
- 2006-08 Accurate Accounting Records Should Be Maintained For The Jail Canteen
- 2006-09 The Fiscal Court Should Require The Jailer To Submit An Annual Financial Report To The County Treasurer
- 2006-10 The Fiscal Court Should Comply With KRS 64.140, Which Requires That Invoices Be Paid Within 30 Working Days
- 2006-11 The Fiscal Court Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
- 2006-12 The Fiscal Court Minutes Should Accurately Reflect What Occurs At Fiscal Court Meetings

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

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Members of the Clinton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clinton County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Clinton County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Clinton County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Jailer did not maintain accurate and complete records of receipts for the Jail Canteen Fund. As a result, we were unable to determine actual receipts for the business-type activities and the Jail Canteen Fund.

In our opinion, except for the possible effect on the financial statements of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, and the Jail Canteen Fund of Clinton County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky

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In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of Clinton County, Kentucky as of June 30, 2006 and the respective change in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has not presented the management's discussion and analysis that the Government Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clinton County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 15, 2007 on our consideration of Clinton County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2006-01 The Fiscal Court Should Improve Their Internal Control Procedures
- 2006-02 The Fiscal Court Should Strengthen Internal Control Procedures Over Ambulance Billings And Collections
- 2006-03 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2006-04 The Fiscal Court Should Strengthen Controls Over Employee Timesheets
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- 2006-06 The Fiscal Court Should Improve Procedures Over Expenditures And Cash Disbursements
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- 2006-09 The Fiscal Court Should Require The Jailer To Submit An Annual Financial Report To The County Treasurer
- 2006-10 The Fiscal Court Should Comply With KRS 64.140, Which Requires That Invoices Be Paid Within 30 Working Days

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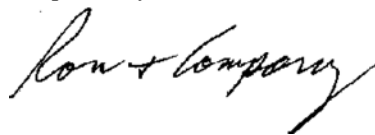
Honorable Donnie McWhorter, Former Clinton County Judge/Executive

Members of the Clinton County Fiscal Court

2006-11 The Fiscal Court Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

2006-12 The Fiscal Court Minutes Should Accurately Reflect What Occurs At Fiscal Court Meetings

Respectfully submitted,

A handwritten signature in black ink that reads "Ross & Company". The signature is written in a cursive, flowing style.

Ross & Company, PLLC
Certified Public Accounts

August 15, 2007

CLINTON COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Donnie McWhorter	County Judge/Executive
Phillip Parrigin	Magistrate
Billy K. Smith	Magistrate
Charlie Stearns	Magistrate
Sam Hadley	Magistrate
Jerry Lowhorn	Magistrate
Mickey Riddle	Magistrate

Other Elected Officials:

Wanda White	County Attorney
Gene Ferrill	Jailer
Jim Elmore	County Clerk
Jake Staton	Circuit Court Clerk
Kay Riddle	Sheriff
Billy Joe Coop	Property Valuation Administrator
Steve Talbott	Coroner

Appointed Personnel:

Dallas Sidwell	County Treasurer
Jo Ann Felkins	Occupational Tax Collector
Tuesday Davis	Finance Officer

CLINTON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

CLINTON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,092,395	\$ 30,840	\$ 1,123,235
Total Current Assets	<u>1,092,395</u>	<u>30,840</u>	<u>1,123,235</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	123,907		123,907
Buildings	1,157,241		1,157,241
Other Equipment	366,446		366,446
Vehicles and Equipment	125,574		125,574
Infrastructure Assets - Net of Depreciation	<u>1,249,088</u>		<u>1,249,088</u>
Total Noncurrent Assets	<u>3,022,256</u>		<u>3,022,256</u>
Total Assets	<u>4,114,651</u>	<u>30,840</u>	<u>4,145,491</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	3,022,256		3,022,256
Unrestricted	<u>1,092,395</u>	<u>30,840</u>	<u>1,123,235</u>
Total Net Assets	<u>\$ 4,114,651</u>	<u>\$ 30,840</u>	<u>\$ 4,145,491</u>

The accompanying notes are an integral part of the financial statements.

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CLINTON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

CLINTON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,225,950	\$ 28,234	\$ 123,952	\$ 80,000
Protection to Persons and Property	983,642	491,219	131,079	
General Health and Sanitation	93,344		21,490	
Social Services	74,266			
Recreation and Culture	966			
Roads	753,569		804,471	373,168
Debt Service	15,818			
Capital Projects	475			
Total Governmental Activities	<u>3,148,030</u>	<u>519,453</u>	<u>1,080,992</u>	<u>453,168</u>
Business-type Activities:				
Jail Canteen Fund	47,590	75,234		
Total Business-type Activities	<u>47,590</u>	<u>75,234</u>		
Total Primary Government	<u>\$ 3,195,620</u>	<u>\$ 594,687</u>	<u>\$ 1,080,992</u>	<u>\$ 453,168</u>

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Occupational Taxes

 Net Profit Taxes

 Other Taxes

In Lieu Tax Payments

Excess Fees

Miscellaneous Revenues

Interest

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

CLINTON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (993,764)	\$	\$ (993,764)
(361,344)		(361,344)
(71,854)		(71,854)
(74,266)		(74,266)
(966)		(966)
424,070		424,070
(15,818)		(15,818)
(475)		(475)
(1,094,417)		(1,094,417)
	27,644	27,644
	27,644	27,644
(1,094,417)	27,644	(1,066,773)
159,833		159,833
2,231		2,231
644,068		644,068
101,043		101,043
210,355		210,355
109,708		109,708
61,708		61,708
70,573		70,573
34,659		34,659
1,394,178		1,394,178
299,761	27,644	327,405
3,814,890	3,196	3,818,086
\$ 4,114,651	\$ 30,840	\$ 4,145,491

The accompanying notes are an integral part of the financial statements.

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CLINTON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

CLINTON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Ambulance Fund</u>	<u>Occupational Tax Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 299,588	\$ 101,444	\$ 205,163	\$ 232,135
Total Assets	<u>\$ 299,588</u>	<u>\$ 101,444</u>	<u>\$ 205,163</u>	<u>\$ 232,135</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 1,542	\$ 157	\$ 261	\$
Unreserved:				
General Fund	298,046			
Special Revenue Funds	<u> </u>	<u>101,287</u>	<u>204,902</u>	<u>232,135</u>
Total Fund Balances	<u>\$ 299,588</u>	<u>\$ 101,444</u>	<u>\$ 205,163</u>	<u>\$ 232,135</u>

The accompanying notes are an integral part of the financial statements.

CLINTON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2006
(Continued)

Non-Major Governmental Funds	Total Governmental Funds
<u>\$ 254,065</u>	<u>\$ 1,092,395</u>
<u><u>\$ 254,065</u></u>	<u><u>\$ 1,092,395</u></u>

\$ 238	\$ 2,198
	298,046
<u>253,827</u>	<u>792,151</u>
<u><u>\$ 254,065</u></u>	<u><u>\$ 1,092,395</u></u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,092,395
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	4,306,518
Accumulated Depreciation	<u>(1,284,262)</u>
Net Assets Of Governmental Activities	<u><u>\$ 4,114,651</u></u>

The accompanying notes are an integral part of the financial statements.

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CLINTON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

CLINTON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Ambulance Fund</u>	<u>Occupational Tax Fund</u>
REVENUES				
Taxes	\$ 284,432	\$	\$	\$ 745,111
In Lieu Tax Payments	109,708			
Excess Fees	61,708			
Licenses and Permits	28,234			
Intergovernmental	230,388	1,090,901	10,017	
Charges for Services	3,400		415,479	
Miscellaneous	58,550	2,938		
Interest	24,750	2,222	1,070	5,240
Total Revenues	<u>801,170</u>	<u>1,096,061</u>	<u>426,566</u>	<u>750,351</u>
EXPENDITURES				
General Government	735,704	23,267		21,362
Protection to Persons and Property	1,151		497,202	
General Health and Sanitation	84,220			
Social Services				
Recreation and Culture	966			
Roads	184,518	1,222,409		
Debt Service	15,818			
Capital Projects				
Administration	269,249	109,880	159,020	8,129
Total Expenditures	<u>1,291,626</u>	<u>1,355,556</u>	<u>656,222</u>	<u>29,491</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(490,456)</u>	<u>(259,495)</u>	<u>(229,656)</u>	<u>720,860</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	279,330	207,865	205,912	
Transfers To Other Funds		(179,330)		(850,000)
Total Other Financing Sources (Uses)	<u>279,330</u>	<u>28,535</u>	<u>205,912</u>	<u>(850,000)</u>
Net Change in Fund Balances	(211,126)	(230,960)	(23,744)	(129,140)
Fund Balances - Beginning	510,714	332,404	228,907	361,275
Fund Balances - Ending	<u>\$ 299,588</u>	<u>\$ 101,444</u>	<u>\$ 205,163</u>	<u>\$ 232,135</u>

The accompanying notes are an integral part of the financial statements.

CLINTON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Non-Major Governmental Funds	Total Governmental Funds
\$ 83,041	\$ 1,112,584
	109,708
	61,708
	28,234
215,005	1,546,311
65,137	484,016
9,083	70,571
1,377	34,659
<u>373,643</u>	<u>3,447,791</u>
18,426	798,759
531,324	1,029,677
6,250	90,470
70,712	70,712
	966
	1,406,927
	15,818
475	475
111,347	657,625
<u>738,534</u>	<u>4,071,429</u>
<u>(364,891)</u>	<u>(623,638)</u>
358,458	1,051,565
<u>(22,235)</u>	<u>(1,051,565)</u>
<u>336,223</u>	
(28,668)	(623,638)
282,733	1,716,033
<u>\$ 254,065</u>	<u>\$ 1,092,395</u>

The accompanying notes are an integral part of the financial statements.

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CLINTON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

CLINTON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (623,638)
Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	1,196,032
Depreciation Expense	<u>(272,633)</u>
Change in Net Assets of Governmental Activities	<u>\$ 299,761</u>

The accompanying notes are an integral part of the financial statements.

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CLINTON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

CLINTON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

	<u>Business-Type Activities</u>
	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 30,840
Total Current Assets	<u>30,840</u>
Net Assets	
Unrestricted	30,840
Total Net Assets	<u><u>\$ 30,840</u></u>

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CLINTON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

CLINTON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>Business-Type Activities</u>
	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Operating Revenues	
Canteen Receipts	\$ 75,234
Total Operating Revenues	<u>75,234</u>
Operating Expenses	
Cost of Sales	<u>47,590</u>
Total Operating Expenses	<u>47,590</u>
Operating Income	<u>27,644</u>
Total Net Assets - Beginning	<u>3,196</u>
Total Net Assets - Ending	<u><u>\$ 30,840</u></u>

The accompanying notes are an integral part of the financial statements.

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CLINTON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

CLINTON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>Business-Type Activities</u>
	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Receipts From Customers	\$ 75,234
Cost of Sales	<u>(47,590)</u>
Net Cash (Used) Provided By Operating Activities	<u>27,644</u>
Net Increase (Decrease) in Cash and Cash Equivalents	27,644
Cash and Cash Equivalents - July 1, 2005	<u>3,196</u>
Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 30,840</u></u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	<u>\$ 27,644</u>
Net Cash Provided By Operating Activities	<u><u>\$ 27,644</u></u>

The accompanying notes are an integral part of the financial statements.

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CLINTON COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

CLINTON COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	<u>Agency Fund</u>
	Jail Inmate Fund
	<u></u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 21,543</u>
Total Current Assets	<u>21,543</u>
Liabilities	
Amounts Held In Custody For Others	<u>21,543</u>
Total Liabilities	<u>21,543</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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CLINTON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary Of Significant Accounting Policies

A. Basis Of Presentation

The County presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, ambulance receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Clinton County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Clinton County Fiscal Court does not have any component units, blended or discretely presented.

C. Clinton County Officials

Kentucky law provides for election of the officials below from the geographic area constituting Clinton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Clinton County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary Of Significant Accounting Policies (Continued)

D. Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) For all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**CLINTON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

Note 1. Summary Of Significant Accounting Policies (Continued)

D. Government-Wide And Fund Financial Statements (Continued)

Governmental Funds (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Ambulance Fund – The purpose of this fund is to account for the operation of the county's ambulance service. The primary sources of revenue for this fund are collections from medicare, insurance companies, individuals, and transfers from the General Fund.

Occupational Tax Fund - The purpose of this fund is to account for the county's .75% occupational and net profits tax received from local businesses. These funds are not restricted and can be used at the discretion of the fiscal court, as they deem necessary.

The primary government also has the following non-major funds: Jail Fund, Local Government Economic Assistance Fund, Disaster and Emergency Services Fund, Forestry Fund, 911 Fund, and the Homeland Security Fund. These funds are used to account for the proceeds of specific revenue sources and expenditures that are restricted for specific purposes.

Special Revenue Funds

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Disaster and Emergency Services Fund, Ambulance Fund, Forestry Fund, Occupational Tax Fund, 911 Fund, and the Homeland Security Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements and Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the Jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the Jailer to maintain accounting records and report annually to the County Treasurer the receipts and disbursements of the Jail Canteen Fund.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 1. Summary Of Significant Accounting Policies (Continued)

D. Government-Wide And Fund Financial Statements (Continued)

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The County's agency fund, the Jail Inmate Fund, is used to account for inmate monies held by the Jailer for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

E. Deposits And Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and construction in progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	2-20
Infrastructure	\$ 20,000	10-50

**CLINTON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

Note 1. Summary Of Significant Accounting Policies (Continued)

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

I. Related Organizations And Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following entity is considered a related organization of the Clinton County Fiscal Court: Clinton County Industrial Authority.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the Clinton County Fiscal Court participates in two joint ventures. The Albany-Clinton County Recreational Park Board is a joint venture with the city of Albany and the Clinton County Board of Education. The Tri-County Animal Control is a joint venture with Cumberland County Fiscal Court and Wayne County Fiscal Court.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 2. Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 123,907	\$	\$	\$ 123,907
Total Capital Assets Not Being Depreciated	123,907			123,907
Capital Assets, Being Depreciated:				
Buildings	1,482,082	193,200		1,675,282
Other Equipment	380,580	225,488		606,068
Vehicles and Equipment	396,214	9,500		405,714
Infrastructure	727,703	767,844		1,495,547
Total Capital Assets Being Depreciated	2,986,579	1,196,032		4,182,611
Less Accumulated Depreciation For:				
Buildings	(489,764)	(28,277)		(518,041)
Other Equipment	(184,927)	(54,695)		(239,622)
Vehicles and Equipment	(232,725)	(47,415)		(280,140)
Infrastructure	(104,213)	(142,246)		(246,459)
Total Accumulated Depreciation	(1,011,629)	(272,633)		(1,284,262)
Total Capital Assets, Being Depreciated, Net	1,974,950	923,399		2,898,349
Governmental Activities Capital Assets, Net	\$ 2,098,857	\$ 923,399	\$ 0	\$ 3,022,256

Depreciation expense was charged to functions of these primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 43,126
Protection to Persons and Property	49,593
General Health and Sanitation	2,874
Social Services	3,554
Roads, Including Depreciation of General Infrastructure Assets	<u>173,486</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 272,633</u>

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

Note 4. Short-Term Debt

In July 2005, Clinton County participated in the Kentucky Association of Counties Kentucky Advanced Revenue Program by issuing a note in the amount of \$898,600, with principal being due in January 2006.

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Kentucky Advanced Revenue Program	\$ 0	\$ 898,600	\$ 898,600	\$ 0
Governmental Activities				
Short-term Liabilities	<u>\$ 0</u>	<u>\$ 898,600</u>	<u>\$ 898,600</u>	<u>\$ 0</u>

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement System's annual financial report. This report may be obtained by writing the Kentucky Retirements Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 6. Insurance

For the fiscal year ended June 30, 2006, Clinton County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2006

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 243,500	\$ 243,500	\$ 284,432	\$ 40,932
In Lieu Tax Payments	96,000	96,000	109,708	13,708
Excess Fees	252	60,477	61,708	1,231
Licenses and Permits	29,100	29,100	28,234	(866)
Intergovernmental Revenue	75,600	155,600	230,388	74,788
Charges for Services	4,500	4,500	3,400	(1,100)
Miscellaneous	808,000	808,000	58,550	(749,450)
Interest	7,000	7,000	24,750	17,750
Total Revenues	<u>1,263,952</u>	<u>1,404,177</u>	<u>801,170</u>	<u>(603,007)</u>
EXPENDITURES				
General Government	635,801	791,901	735,704	56,197
Protection to Persons and Property	4,000	4,000	1,151	2,849
General Health and Sanitation	88,800	127,400	84,220	43,180
Recreation and Culture	1,000	1,000	966	34
Road		200,000	184,518	15,482
Debt Service	907,700	914,418	914,418	
Administration	1,004,581	1,054,102	269,249	784,853
Total Expenditures	<u>2,641,882</u>	<u>3,092,821</u>	<u>2,190,226</u>	<u>902,595</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,377,930)</u>	<u>(1,688,644)</u>	<u>(1,389,056)</u>	<u>299,588</u>
OTHER FINANCING SOURCES (USES)				
Kentucky Advanced Revenue Program	898,600	898,600	898,600	
Transfers From Other Funds	<u>279,330</u>	<u>279,330</u>	<u>279,330</u>	
Total Other Financing Sources (Uses)	<u>1,177,930</u>	<u>1,177,930</u>	<u>1,177,930</u>	
Net Changes in Fund Balance	(200,000)	(510,714)	(211,126)	299,588
Fund Balance - Beginning	<u>200,000</u>	<u>510,714</u>	<u>510,714</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 299,588</u>	<u>\$ 299,588</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,118,369	\$ 1,118,369	\$ 1,090,901	\$ (27,468)
Miscellaneous	505	505	2,938	2,433
Interest	2,500	2,500	2,222	(278)
Total Revenues	<u>1,121,374</u>	<u>1,121,374</u>	<u>1,096,061</u>	<u>(25,313)</u>
EXPENDITURES				
General Government	24,800	24,800	23,267	1,533
Roads	1,125,171	1,290,044	1,222,409	67,635
Administration	292,073	127,200	109,880	17,320
Total Expenditures	<u>1,442,044</u>	<u>1,442,044</u>	<u>1,355,556</u>	<u>86,488</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(320,670)</u>	<u>(320,670)</u>	<u>(259,495)</u>	<u>61,175</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			207,865	207,865
Transfers To Other Funds	<u>(179,330)</u>	<u>(179,330)</u>	<u>(179,330)</u>	
Total Other Financing Sources (Uses)	<u>(179,330)</u>	<u>(179,330)</u>	<u>28,535</u>	<u>207,865</u>
Net Changes in Fund Balance	(500,000)	(500,000)	(230,960)	269,040
Fund Balance - Beginning	<u>500,000</u>	<u>500,000</u>	<u>332,404</u>	<u>(167,596)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 101,444</u>	<u>\$ 101,444</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

AMBULANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 25,700	\$ 25,700	\$ 10,017	\$ (15,683)
Charges for Services	353,400	353,400	415,479	62,079
Miscellaneous	600	600		(600)
Interest	1,000	1,000	1,070	70
Total Revenues	380,700	380,700	426,566	45,866
EXPENDITURES				
Protection to Persons and Property	525,100	560,200	497,202	62,998
Administration	190,600	349,407	159,020	190,387
Total Expenditures	715,700	909,607	656,222	253,385
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(335,000)	(528,907)	(229,656)	299,251
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	300,000	300,000	205,912	(94,088)
Total Other Financing Sources (Uses)	300,000	300,000	205,912	(94,088)
Net Changes in Fund Balance	(35,000)	(228,907)	(23,744)	205,163
Fund Balance - Beginning	35,000	228,907	228,907	
Fund Balance - Ending	\$ 0	\$ 0	\$ 205,163	\$ 205,163

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 630,000	\$ 630,000	\$ 745,111	\$ 115,111
Interest	2,500	2,500	5,240	2,740
Total Revenues	632,500	632,500	750,351	117,851
EXPENDITURES				
General Government	31,100	31,900	21,362	10,538
Administration	226,400	336,875	8,129	328,746
Total Expenditures	257,500	368,775	29,491	339,284
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	375,000	263,725	720,860	457,135
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(625,000)	(625,000)	(850,000)	(225,000)
Total Other Financing Sources (Uses)	(625,000)	(625,000)	(850,000)	(225,000)
Net Changes in Fund Balances	(250,000)	(361,275)	(129,140)	232,135
Fund Balances - Beginning	250,000	361,275	361,275	
Fund Balances - Ending	\$ 0	\$ 0	\$ 232,135	\$ 232,135

CLINTON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The General Fund Budgetary Comparison Schedule differs from the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for the following:

Note 2. Reconciliation of the General Fund to the Statement Of Revenues, Expenditures, And Changes In Fund Balances:

Total Expenditures - Budgetary Basis	\$ 2,190,226
Less: Kentucky Advanced Revenue Program Principal Payment	<u>(898,600)</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 1,291,626</u></u>
Total Other Financing Sources (Uses) - Budgetary Basis	\$ 1,177,930
Less: Kentucky Advanced Revenue Program Proceeds	<u>(898,600)</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u><u>\$ 279,330</u></u>

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CLINTON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

CLINTON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	Jail Fund	Local Government Economic Assistance Fund	Disaster and Emergency Services Fund	Forestry Fund
ASSETS				
Cash and Cash Equivalents	\$ 97,833	\$ 37,016	\$ 27,588	\$ 233
Total Assets	<u>\$ 97,833</u>	<u>\$ 37,016</u>	<u>\$ 27,588</u>	<u>\$ 233</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 238	\$	\$	\$
Unreserved:				
Special Revenue Funds	<u>97,595</u>	<u>37,016</u>	<u>27,588</u>	<u>233</u>
Total Fund Balances	<u>\$ 97,833</u>	<u>\$ 37,016</u>	<u>\$ 27,588</u>	<u>\$ 233</u>

The accompanying notes are an integral part of the financial statements.

CLINTON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2006
(Continued)

911 Fund	Homeland Security Fund	Total Non-Major Governmental Funds
<u>\$ 82,971</u>	<u>\$ 8,424</u>	<u>\$ 254,065</u>
<u><u>\$ 82,971</u></u>	<u><u>\$ 8,424</u></u>	<u><u>\$ 254,065</u></u>
\$	\$	\$ 238
<u>82,971</u>	<u>8,424</u>	<u>253,827</u>
<u><u>\$ 82,971</u></u>	<u><u>\$ 8,424</u></u>	<u><u>\$ 254,065</u></u>

The accompanying notes are an integral part of the financial statements.

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CLINTON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

CLINTON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Jail Fund	Local Government Economic Assistance Fund	Disaster and Emergency Services Fund	Forestry Fund
REVENUES				
Taxes	\$	\$	\$	\$ 901
Intergovernmental	105,383	86,738	22,884	
Charges for Services	23,887			
Miscellaneous	6,552	2,381		
Interest	523	390	167	
Total Revenues	<u>136,345</u>	<u>89,509</u>	<u>23,051</u>	<u>901</u>
EXPENDITURES				
General Government		18,426		
Protection to Persons and Property	274,686	500	23,987	1,286
General Health and Sanitation		6,250		
Social Services		70,712		
Capital Projects	475			
Administration	63,273	6,107	411	
Total Expenditures	<u>338,434</u>	<u>101,995</u>	<u>24,398</u>	<u>1,286</u>
Excess (Deficiency) of Revenues Over Before Other Financing Sources (Uses)	<u>(202,089)</u>	<u>(12,486)</u>	<u>(1,347)</u>	<u>(385)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	250,000			
Transfers To Other Funds			(22,235)	
Total Other Financing Sources (Uses)	<u>250,000</u>		<u>(22,235)</u>	
Net Change in Fund Balances	47,911	(12,486)	(23,582)	(385)
Fund Balances - Beginning	49,922	49,502	51,170	618
Fund Balances - Ending	<u>\$ 97,833</u>	<u>\$ 37,016</u>	<u>\$ 27,588</u>	<u>\$ 233</u>

The accompanying notes are an integral part of the financial statements.

CLINTON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006
(Continued)

911 Fund	Homeland Security Fund	Total Non-Major Governmental Funds
\$ 82,140	\$	\$ 83,041
		215,005
41,250		65,137
150		9,083
297		1,377
<u>123,837</u>		<u>373,643</u>
		18,426
187,181	43,684	531,324
		6,250
		70,712
		475
<u>41,556</u>		<u>111,347</u>
<u>228,737</u>	<u>43,684</u>	<u>738,534</u>
<u>(104,900)</u>	<u>(43,684)</u>	<u>(364,891)</u>
108,458		358,458
		(22,235)
<u>108,458</u>		<u>336,223</u>
3,558	(43,684)	(28,668)
79,413	52,108	282,733
<u>\$ 82,971</u>	<u>\$ 8,424</u>	<u>\$ 254,065</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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The Honorable Lyle Huff, Clinton County Judge/Executive
The Honorable Donnie McWhorter, Former Clinton County Judge/Executive
Members of the Clinton County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clinton County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated August 15, 2007 wherein we issued a qualified opinion on the business-type activities and the jail canteen fund. Clinton County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clinton County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Clinton County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying comments and recommendations as items 2006-01, 2006-02, 2006-03, 2006-04, 2006-05, 2006-06, 2006-07, and 2006-08.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items: 2006-01, 2006-02, 2006-03, 2006-06, and 2006-08 to be material weaknesses.

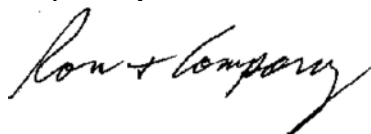
Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Clinton County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed instances of material noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying comments and recommendations as items: 2006-09, 2006-10, 2006-11, and 2006-12.

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Ross & Company". The signature is stylized and cursive.

Ross & Company, PLLC
Certified Public Accounts

August 15, 2007

COMMENTS AND RECOMMENDATIONS

**CLINTON COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2006

REPORTABLE CONDITIONS

2006-01 The Fiscal Court Should Improve Their Internal Control Procedures

The county has a lack of segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions the county has limited options for establishing an adequate segregation of duties. We recommend the following procedures be implemented to strengthen the internal control weaknesses:

- An independent person should list all receipts and agree them back to the treasurer's receipts ledger. Also, the employee opening the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, whom it is from, and what the check is for.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. The person can document this by initialing the bank statement.
- An independent person should review the treasurer's bank reconciliations for accuracy and agree them to book balances for all funds. The person completing this review should initial the bank reconciliation to document that a review was performed.
- An employee independent of check writing and posting duties should match purchase orders to checks and invoices. The employee who signs the checks should cancel the purchase orders and invoices to ensure invoices are not paid twice.
- To have better internal controls, it is considered a best practice to keep the receipt of cash, the disbursement of cash, and the posting of cash to the ledgers delegated to separate individuals.

We recommend the county implement these procedures. This will help segregate the duties of the county employees.

Former County Judge/Executive Donnie McWhorter's Response: No Response.

2006-02 The Fiscal Court Should Strengthen Internal Control Procedures Over Ambulance Billings And Collections

During our review of ambulance billing and collection procedures the auditors noted that all bills for ambulance service runs are prepared and mailed by the billing clerk whose office is located at the emergency services building. All payments are sent to a post office box for which the billing clerk is able to access. The billing clerk enters all the information in the computer and forwards the payments to the County Treasurer for deposit in the county's bank account.

The County Treasurer does not receive any information on the billings except for the actual payments that she receives from the billing clerk. Uncollected accounts are billed up to three times and if not paid they stay on the books as an outstanding receivable. The only write offs for uncollectible accounts is what the insurance companies and Medicare disallow. The billing clerk prepares monthly reports, which include billings, payments, and accounts receivable. This information is not presented to the fiscal court for review.

CLINTON COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2006
(Continued)

REPORTABLE CONDITIONS (Continued)

2006-02 The Fiscal Court Should Strengthen Internal Control Procedures Over Ambulance Billings And Collections (Continued)

We recommend that the fiscal court prepare written procedures for ambulance service billings and collections and include the procedures as an amendment to their administrative code. These procedures should at least include reporting of all billings to the County Treasurer on a monthly basis, reconciliation of billing reports to actual payments received, and uncollectible accounts procedures and write off of uncollectible accounts.

Former County Judge/Executive Donnie McWhorter's Response: No Response.

2006-03 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically

The county did not have a completed capital asset schedule for fiscal year ending June 30, 2006. A list of capital asset additions and disposals were not properly maintained. A schedule of additions should be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. Further, we believe that the capital asset listing should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing. As equipment is disposed of it should be removed from the listing. We recommend that the county maintain complete and accurate capital assets schedules to comply with GASB 34 requirements.

The fiscal court should take a physical inventory of its capital assets on a regular basis (such as every two to three years) or at the beginning of a new administration to ensure that only active, in-service machinery and equipment is included on the county's financial statements. This will ensure that capital assets are properly stated and that depreciation is being calculated from a reliable listing.

Former County Judge/Executive Donnie McWhorter's Response: No Response.

2006-04 The Fiscal Court Should Strengthen Controls Over Employee Timesheets

During the testing of payroll, we noted instances of time sheets that were not signed by the employee and/or supervisor and timesheets that had errors in the calculations. According to KRS 337.320, "Every employer shall keep a record of . . . the hours worked each day and each week by each employee." Good internal controls dictate that all timesheets have supervisory approval and records of vacation and sick time should be properly maintained. In order to strengthen controls over payroll and to properly account for all time worked for each employee, we recommend that the employee's supervisor approve each timesheet.

Former County Judge/Executive Donnie McWhorter's Response: No Response.

CLINTON COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2006
(Continued)

REPORTABLE CONDITIONS (Continued)

2006-05 The Fiscal Court Should Have Better Control Over Voided Checks

During the review of voided checks auditors noted that several voided checks with signatures were included in the files. While the voided checks were marked "void," the checks were not defaced or otherwise rendered unusable; thus creating a potential for someone who can gain access to the check to misappropriate cash by completing the data on the check for fraudulent purposes. To reduce this risk, we recommend that the county adopt a policy to have better control over voided checks and ensure that all voided checks be properly defaced to ensure that they could not be improperly completed and cashed.

Former County Judge/Executive Donnie McWhorter's Response: No Response.

2006-06 The Fiscal Court Should Improve Procedures Over Expenditures And Cash Disbursements

During our testing of expenditures, it was noted that original invoices were not always being maintained. In addition, there were instances where expenditures were being paid from vendor statements rather than an original invoice. Of the expenditures selected for testing, approximately 21% did not have the original supporting documentation and 4% of invoices tested were not properly cancelled.

Good internal controls dictate that adequate supporting documentation be maintained for all receipts and disbursements. The "Uniform System of Accounts" as stipulated by the Governor's Office for Local Development (GOLD) requires counties to maintain adequate supporting documentation for all county expenditures. Copies of invoices and faxed invoices are unacceptable. All original invoices should agree to corresponding purchase orders.

Proper accounting procedures and internal control policies should be in place. All expenditures should be reviewed and approved by the fiscal court prior to payment. Also, disbursements should be made as soon as practical after the fiscal court approves the expenditures. Vendors should be paid from original invoices and not statements mailed periodically from the vendor. All invoices should be cancelled upon payment. Purchasing procedures should be in accordance with GOLD requirements, specifically, purchase orders must include the appropriation account number to which the claim will be posted and proper approval by management or the department head. Vendor names, departments, product descriptions, quantities, and prices should be on each purchase order issued in order for the purchasing procedures to be effective. Sound management and a good internal control structure are essential for the achievement of full oversight and accountability.

Lack of proper accounting practices and internal controls increases the risk that misstatements of financial activity and/or fraud will occur and go undetected by the County. Without proper procedures in place to mitigate the risk, the county is exposing public resources to potential misstatements and/or fraud.

Former County Judge/Executive Donnie McWhorter's Response: No Response.

CLINTON COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2006
(Continued)

REPORTABLE CONDITIONS (Continued)

2006-07 The Fiscal Court Should Properly Account For Encumbrances

The county did not properly account for encumbrances as required by the Governor's Office for Local Development (GOLD). The county did include encumbrances on the face of the fourth quarter financial report; however, they were unable to provide an accurate list of items that made up the amount of encumbrances posted on the report. We recommend that the county properly maintain encumbrances as required by GOLD. The "Instructional Guide For County Budget Preparation & State Local Finance Officer Policy Manual" states, "Enter the total dollar amount of unpaid purchase orders from the purchase order journal." We recommend that the county maintain an accurate purchase order journal in the future and use the amounts from the journal as the encumbrances listed on the quarterly report. A separate list of outstanding purchase orders should be maintained at the end of each fiscal year.

Former County Judge/Executive Donnie McWhorter's Response: No Response.

2006-08 Accurate Accounting Records Should Be Maintained For The Jail Canteen

The Jailer is not maintaining daily cash checkout sheets. The Jailer is maintaining a receipts ledger and disbursements journal; however, the ledgers are inaccurate and incomplete. During the fiscal year, jail commissary sales were purchased using money from the inmate account but were not always deposited into the commissary account. Funds are transferred from the inmate account periodically to the commissary account in order to replenish used funds.

KRS 441.135 states, "the jailer may maintain a canteen fund for the benefit of the prisoners lodged in the jail and may assign such jail employees and prisoners to operate the canteen as are necessary for efficient operation. All profits from the canteen shall be used for the benefit or recreation of the prisoners. The jailer should keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account."

In addition, the Instructional Guide For County Budget Preparation And State Local Finance Officer Policy Manual lists minimum accounting and reporting standards as prescribed by the State Local Finance Officer pursuant to KRS 68.210 and states that these are standard to be utilized by county jailers for jail canteen funds. These standards require that daily checkout sheets be prepared and daily deposits be made. They also state that a maximum of fifty dollars shall be used for start-up money for the next business day.

We recommend that jail commissary sales, housing fees, booking fees, and medical fees be transferred in the full amount from the bank account for inmate money to the jail commissary bank account at least on a weekly basis. Some form of a daily checkout sheet should be maintained for each bank account. The daily checkout sheets for each account should show total receipts by category, amount, and day of deposit. A detailed receipts ledger should also be maintained for each bank account.

Former County Judge/Executive Donnie McWhorter's Response: No Response.

Jailer Gene Ferrill's Response: now doing this.

CLINTON COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2006
(Continued)

STATE LAWS AND REGULATIONS

2006-09 The Fiscal Court Should Require The Jailer To Submit An Annual Financial Report To The County Treasurer

Our audit revealed that the Jailer did not submit an annual financial report to the County Treasurer as required by KRS 441.135(2). The State Local Finance Officer has prescribed the minimum accounting and reporting requirements pursuant to KRS 68.210. These are to be utilized by county jailers for jail canteen funds maintained pursuant to KRS 441.135. These requirements include, but are not limited to, the Jailer submitting an annual financial report to the County Treasurer. We recommend the fiscal court require the Jailer to submit an annual financial report at the end of each fiscal year in the future.

Former County Judge/Executive Donnie McWhorter's Response: No Response.

2006-10 The Fiscal Court Should Comply With KRS 64.140, Which Requires That Invoices Be Paid Within 30 Working Days

During the course of our audit, we found that numerous invoices were not paid in a timely manner. Approximately 23% of expenditures tested were not paid within the statutory time frame of thirty (30) days. KRS 65.140(2) states that all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. It continues to state that if a payment of invoices exceeds 30 days, a 1% interest penalty should be added. We recommend that the county comply with KRS 65.140 by paying invoices within thirty (30) working days.

Former County Judge/Executive Donnie McWhorter's Response: No Response.

2006-11 The Fiscal Court Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

KRS 68.005 mentions that the fiscal court should review the administrative code annually before the end of the fiscal year. We recommend that the fiscal court review the administrative code and personnel policy and then make necessary changes and modifications as appropriate. The review of the administrative code should be reflected in the minutes of the fiscal court.

Former County Judge/Executive Donnie McWhorter's Response: No Response

CLINTON COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2006
(Continued)

STATE LAWS AND REGULATIONS (Continued)

2006-12 The Fiscal Court Minutes Should Accurately Reflect What Occurs At Fiscal Court Meetings

Fiscal Court minutes are not detailed enough to provide adequate information to the public. The fiscal court minutes need to accurately reflect what occurs during fiscal court meetings. The minutes need to include all bids submitted (including bid amounts), a listing of all claims approved and paid, copies of all budgets and financial statements or other items presented and any other information that supports the actions taken by the fiscal court. Anyone looking for information about fiscal court meetings should be able to find it in the minutes. The absence of this supporting information prevents the public from knowing what actually occurred at the fiscal court meetings. We were often unable to verify information in the minutes because of the lack of detail and supporting schedules. During our testing of expenditures, it was noted that two invoices for roadwork were approved by the fiscal court without specifying a dollar amount. The invoices totaled over \$400,000. Many of the questions we have with the minutes could have been avoided by simply attaching the budget amendments, ordinances, bids, or any additional paperwork that was submitted to the fiscal court. We recommend that the fiscal court minutes contain any information necessary to support the actions taken by the fiscal court and consult with the Governor's Office for Local Development if any additional help is needed.

Former County Judge/Executive Donnie McWhorter's Response: No Response.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

CLINTON COUNTY FISCAL COURT

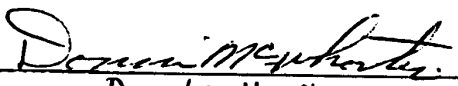
**For The Fiscal Year Ended
June 30, 2006**

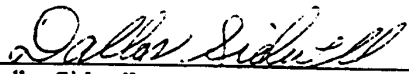
Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CLINTON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

The Clinton County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Donnie McWhorter
County Judge/Executive


Dallas Sidwell
County Treasurer

